

**GARRARD COUNTY SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2012**

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October 12, 2012

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Garrard County School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Garrard County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Garrard County School District as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 12, 2012, on our consideration of Garrard County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 3 through 9 and 16 and 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Garrard County School District's financial statements taken as a whole. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

GARRARD COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2012

As management of the Garrard County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning General Fund's fund balance was \$2.4 million. The ending fund balance was \$2.9 million. General fund revenues showed an increase of \$1.0 million and expenditures showed an increase of \$993 thousand as compared with the prior year. The General Fund transferred \$45 thousand to the Special Revenue Fund for the technology grant match.
- The District had \$25.8 million in revenue and \$25.0 million in expenses.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Total debt service payments for fiscal year 2012 were \$2.5 million.
- The District's total net assets increased \$802,481 to \$13,731,474. Current assets increased \$985,018, non-current assets decreased \$1,048,745 and total liabilities decreased \$866,208.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements - The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our adult education and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 - 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 37 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$13,731,474 as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2012 and June 30, 2011

A comparison of June 30, 2012 and June 30, 2011 government wide net assets is as follows:

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and Other Assets	\$ 4,736,516	\$ 3,786,293	\$ 143,504	\$ 108,709	\$ 4,880,020	\$ 3,895,002
Capital Assets	<u>40,327,237</u>	<u>41,373,575</u>	<u>30,681</u>	<u>33,088</u>	<u>40,357,918</u>	<u>41,406,663</u>
Total Assets	<u>45,063,753</u>	<u>45,159,868</u>	<u>174,185</u>	<u>141,797</u>	<u>45,237,938</u>	<u>45,301,665</u>
Current Liabilities	2,530,213	2,073,953	-	1,556	2,530,213	2,075,509
Non-Current Liabilities	<u>28,976,251</u>	<u>30,297,163</u>	<u>-</u>	<u>-</u>	<u>28,976,251</u>	<u>30,297,163</u>
Total Liabilities	<u>31,506,464</u>	<u>32,371,116</u>	<u>-</u>	<u>1,556</u>	<u>31,506,464</u>	<u>32,372,672</u>
Net Assets						
Investment in capital assets						
(net of related debt)	10,679,368	10,366,116	30,681	33,088	10,710,049	10,399,204
Restricted	369,358	348,909	143,504	107,153	512,862	456,062
Unrestricted	<u>2,508,563</u>	<u>2,073,727</u>	<u>-</u>	<u>-</u>	<u>2,508,563</u>	<u>2,073,727</u>
Total Net Assets	<u>\$ 13,557,289</u>	<u>\$ 12,788,752</u>	<u>\$ 174,185</u>	<u>\$ 140,241</u>	<u>\$ 13,731,474</u>	<u>\$ 12,928,993</u>

The District's total net assets increased \$802,481. Current assets increased \$985,018, non-current assets decreased \$1,048,745 and total liabilities decreased \$866,208.

The following table presents a comparison of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUES						
Program revenues						
Charges for services	\$ 50,830	\$ 51,069	\$ 449,648	\$ 443,381	\$ 500,478	\$ 494,450
Operating grants and contributions	3,035,638	4,391,253	1,022,801	1,047,901	4,058,439	5,439,154
Capital grants	945,170	995,129			945,170	995,129
General revenues						
Property taxes	4,672,264	4,500,707			4,672,264	4,500,707
Motor vehicle taxes	578,750	591,572			578,750	591,572
Utility Taxes	779,571	693,985			779,571	693,985
Other taxes	21,322	19,996			21,322	19,996
Investment earnings	26,472	26,842	1,004	496	27,476	27,338
State and formula grants	13,970,512	13,774,428			13,970,512	13,774,428
Miscellaneous	210,379	17,636			210,379	17,636
Total revenues	<u>24,290,908</u>	<u>25,062,617</u>	<u>1,473,453</u>	<u>1,491,778</u>	<u>25,764,361</u>	<u>26,554,395</u>
EXPENSES						
Program Activities						
Instructional	14,641,692	15,387,670			14,641,692	15,387,670
Student support	804,889	702,793			804,889	702,793
Instructional staff Support	858,790	744,760			858,790	744,760
District administrative support	921,417	744,101			921,417	744,101
School administrative support	922,527	936,970			922,527	936,970
Business support	278,196	217,872			278,196	217,872
Plant operations and maintenance	1,781,967	1,753,916			1,781,967	1,753,916
Student transportation	2,004,597	1,953,635			2,004,597	1,953,635
Community service activities	161,824	173,891			161,824	173,891
Other	7,667	8,977			7,667	8,977
Interest costs	1,138,805	1,322,689			1,138,805	1,322,689
Business-type Activities						
Food service			1,430,278	1,390,317	1,430,278	1,390,317
Adult education			9,231	71,011	9,231	71,011
Total expenses	<u>23,522,371</u>	<u>23,947,274</u>	<u>1,439,509</u>	<u>1,461,328</u>	<u>24,961,880</u>	<u>25,408,602</u>
Increase in net assets	<u>\$ 768,537</u>	<u>\$ 1,115,343</u>	<u>\$ 33,944</u>	<u>\$ 30,450</u>	<u>\$ 802,481</u>	<u>\$ 1,145,793</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2012 and 2011 were \$3,761,752 and \$3,522,293 respectively.

Changes in net assets decreased from \$1,145,793 prior year to \$802,481 for the current year.

Governmental Activities

For the governmental program expenses instructional expenses comprise 62% of total expenses, support services equate to 32%, and interest and other expenses make up the remaining 6% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Instructional	\$ 14,641,692	\$ 15,387,670	\$ 12,061,570	\$ 11,604,862
Support Services	7,572,383	7,054,047	7,235,137	6,576,770
Other	169,491	182,868	391	631
Interest Costs	<u>1,138,805</u>	<u>1,322,689</u>	<u>1,138,805</u>	<u>1,322,689</u>
Total Expenses	<u>\$ 23,522,371</u>	<u>\$ 23,947,274</u>	<u>\$ 20,435,903</u>	<u>\$ 19,504,952</u>

Business-Type Activities

The business type activities at the District are food service and adult education. These programs had total revenues of \$1,473,453 and expenses of \$1,439,509 for fiscal year 2012. These revenues were made up of \$449,648 charges for services \$1,022,801 federal and state operating grants and \$1,004 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 12. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenues for all governmental funds for 2012 were \$24,279,513 and expenditures were \$23,752,413. The most significance net change in fund balance was the General Fund with an increase of \$528,392 which is primarily due to increase in tax revenues along with an increase in the intergovernmental state revenue.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$15,463,568 with actual results being \$18,806,939. Budgeted expenditures were \$17,149,461 compared to actual expenditures of \$18,278,547. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$3,437,960 which are not budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2011-2012 with a 2% contingency. The District has adopted a budget for 2012-2013 with a 2% contingency.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees increased for FY 2012 from 16.93% to 18.96%. The Kentucky Teachers Retirement mandated an increase contribution from .25% to .50% on all employees and increased the federal grants matching from 13.355% to 14.105%.

The SEEK base funding has decreased from \$3,903 in FY 2011-2012 to \$3,833 per pupil in FY 2012-2013 and total SEEK funding per pupil has decreased from \$4,642 to \$4,554 for the same period. The State Flexible Funds decreased from \$369,216 in FY 2011-2012 to \$314,606 in FY 2012-2013. The reduction of these funds has put a financial strain on the General Fund and other funding sources to continue these programs. The Kentucky Department of Education has notified the school districts there will be additional funding cuts for the FY 2012 -2013 school year which will put additional strain on the General Fund.

Funding will be necessary for all building roofing replacements due to hail storm damage for the excess cost above the costs covered by insurance. Additionally, the ARRA funding from the federal government has come to an end, and, as such, the General Funds will be closely monitored to support the district staffing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2012 fiscal year, the District had invested \$40,357,918 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$1,048,745. Depreciation expense for the year was \$1,570,533 and capital additions were \$527,512.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2012 and 2011.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 608,830	\$ 608,830	\$ -	\$ -	\$ 608,830	\$ 608,830
Land Improvements	119,858	160,406	-	-	119,858	160,406
Buildings and Improvements	37,298,034	38,317,075	-	-	37,298,034	38,317,075
Technology	524,906	635,949	5,474	7,068	530,380	643,017
Vehicles	1,286,087	1,196,693	-	-	1,286,087	1,196,693
General Equipment	489,522	454,622	25,207	26,020	514,729	480,642
Total	<u>\$ 40,327,237</u>	<u>\$ 41,373,575</u>	<u>\$ 30,681</u>	<u>\$ 33,088</u>	<u>\$ 40,357,918</u>	<u>\$ 41,406,663</u>

The table below shows the changes in capital assets for fiscal years ended June 30, 2012 and 2011.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 41,373,575	\$ 40,683,719	\$ 33,088	\$ 34,126	\$ 41,406,662	\$ 40,717,845
Additions	523,987	2,250,401	3,525	5,690	527,512	2,256,091
Retirements	(5,723)	(400)	-	-	(5,723)	(400)
Depreciation	(1,564,602)	(1,560,145)	(5,932)	(6,728)	(1,570,533)	(1,566,873)
Ending Balance	<u>\$ 40,327,237</u>	<u>\$ 41,373,575</u>	<u>\$ 30,681</u>	<u>\$ 33,088</u>	<u>\$ 40,357,918</u>	<u>\$ 41,406,663</u>

Long-Term Debt

At year-end the District had \$29,466,672 in bonds outstanding and \$181,197 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2012 was \$1,335,263 and capital lease obligation principal paid was \$24,327. A total of \$1,380,600 is due within one year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	3,728,766	109,769	3,838,535
Accounts Receivable:			
Taxes - Current	160,852		160,852
Taxes - Delinquent	19,085		19,085
Accounts	3,792	8,105	11,897
Intergovernmental - State	37,934		37,934
Intergovernmental - Federal	292,589		292,589
Bond Issue Costs	493,498		493,498
Inventories for Consumption		25,630	25,630
Total Current Assets	4,736,516	143,504	4,880,020
Noncurrent Assets - Note F			
Land	608,830		608,830
Buildings & Improvements	47,707,286		47,707,286
Furniture & Equipment	6,888,688	400,411	7,289,099
Less: Accumulated Depreciation	(14,877,567)	(369,730)	(15,247,297)
Total Noncurrent Assets	40,327,237	30,681	40,357,918
TOTAL ASSETS	45,063,753	174,185	45,237,938
LIABILITIES:			
Current Liabilities:			
Accounts Payable	78,416		78,416
Accrued Salaries & Sick Leave - Note A	395,912		395,912
Deferred Revenues	540,375		540,375
Bond Obligations - Note D	1,355,694		1,355,694
Capital Lease Obligation - Note E	24,906		24,906
Accrued Interest Payable	134,910		134,910
Total Current Liabilities	2,530,213	0	2,530,213
Noncurrent Liabilities:			
Bond Obligations - Note D	28,110,978		28,110,978
Capital Lease Obligation - Note E	156,291		156,291
Accrued Sick Leave - Note A	708,982		708,982
Total Noncurrent Liabilities	28,976,251		28,976,251
TOTAL LIABILITIES	31,506,464	0	31,506,464
NET ASSETS:			
Invested in Net Assets, Net of Related Debt	10,679,368	30,681	10,710,049
Restricted for:			
Capital Projects	294,359		294,359
Encumbrances	74,999		74,999
Other Purposes		143,504	143,504
Unrestricted	2,508,563		2,508,563
TOTAL NET ASSETS	13,557,289	174,185	13,731,474
TOTAL LIABILITIES AND NET ASSETS	45,063,753	174,185	45,237,938

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING	CAPITAL	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS			
GOVERNMENTAL ACTIVITIES:							
Instructional	14,641,692	50,830	2,529,292		(12,061,570)		(12,061,570)
Support Services:							
Student Support Services	804,889		19,499		(785,390)		(785,390)
Staff Support Services	858,790		251,396		(607,394)		(607,394)
District Administration	921,417				(921,417)		(921,417)
School Administration	922,527				(922,527)		(922,527)
Business Support Services	278,196				(278,196)		(278,196)
Plant Operation & Maintenance	1,781,967				(1,781,967)		(1,781,967)
Student Transportation	2,004,597		66,351		(1,938,246)		(1,938,246)
Community Service Operations	161,824		169,100		7,276		7,276
Adult Education Operations	7,667				(7,667)		(7,667)
Facilities Acquisition & Construction				945,170	945,170		945,170
Interest on Long-Term Debt	1,138,805				(1,138,805)		(1,138,805)
TOTAL GOVERNMENTAL ACTIVITIES	23,522,371	50,830	3,035,638	945,170	(19,490,733)		(19,490,733)
BUSINESS-TYPE ACTIVITIES:							
Adult Education	9,231	9,695				464	464
Food Service	1,430,278	439,953	1,022,801			32,476	32,476
TOTAL BUSINESS-TYPE ACTIVITIES	1,439,509	449,648	1,022,801	0	0	32,940	32,940
TOTAL SCHOOL DISTRICT	24,961,880	500,478	4,058,439	945,170	(19,490,733)	32,940	(19,457,793)
GENERAL REVENUES:							
Taxes					6,051,907		6,051,907
State Aid - Formula Grants					13,970,512		13,970,512
Investment Earnings					26,472	1,004	27,476
Miscellaneous					198,984		198,984
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					6,600		6,600
Loss Compensation					4,795		4,795
TOTAL GENERAL & SPECIAL					20,259,270	1,004	20,260,274
CHANGE IN NET ASSETS							
NET ASSETS - BEGINNING					768,537	33,944	802,481
NET ASSETS - BEGINNING					12,788,752	140,241	12,928,993
NET ASSETS - ENDING					13,557,289	174,185	13,731,474

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	3,198,002	236,405		294,359	3,728,766
Accounts Receivable:					
Taxes - Current	160,852				160,852
Taxes - Delinquent	19,085				19,085
Accounts	3,792				3,792
Intergovernmental - State	7,174	30,760			37,934
Intergovernmental - Federal		292,589			292,589
TOTAL ASSETS	<u>3,388,905</u>	<u>559,754</u>	<u>0</u>	<u>294,359</u>	<u>4,243,018</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	59,037	19,379			78,416
Accrued Salaries & Sick Leave	395,912				395,912
Deferred Revenues		540,375			540,375
Total Liabilities	<u>454,949</u>	<u>559,754</u>	<u>0</u>	<u>0</u>	<u>1,014,703</u>
Fund Balance:					
Restricted for:					
Capital Projects				294,359	294,359
Committed for:					
Accrued Sick Leave	708,982				708,982
Assigned:					
Purchase Obligations	74,999				74,999
Unassigned	2,149,975				2,149,975
Total Fund Balance	<u>2,933,956</u>	<u>0</u>	<u>0</u>	<u>294,359</u>	<u>3,228,315</u>
TOTAL LIABILITIES AND NET ASSETS	<u>3,388,905</u>	<u>559,754</u>	<u>0</u>	<u>294,359</u>	<u>4,243,018</u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Amounts reported for governmental activities in the statement of net assets are different because:

TOTAL GOVERNMENTAL FUND BALANCE		3,228,315
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	55,204,804	
Accumulated Depreciation	<u>(14,877,567)</u>	40,327,237
Bond Issuance Costs		493,498
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(29,466,672)	
Capital Lease Obligation	(181,197)	
Accrued Interest on Bonds	(134,910)	
Accrued Sick Leave	<u>(708,982)</u>	<u>(30,491,761)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u><u>13,557,289</u></u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	4,794,796			1,257,111	6,051,907
Earnings on Investments	26,418	54			26,472
Intergovernmental - State	13,774,364	672,602	251,568	945,170	15,643,704
Intergovernmental - Federal	26,320	2,332,126			2,358,446
Other Sources	167,922	30,856		206	198,984
TOTAL REVENUES	18,789,820	3,035,638	251,568	2,202,487	24,279,513
EXPENDITURES:					
Instructional	10,859,809	2,574,122			13,433,931
Support Services:					
Student Support Services	763,413	19,499			782,912
Staff Support Services	588,622	251,396			840,018
District Administration	914,363				914,363
School Administration	921,513				921,513
Business Support Services	291,149				291,149
Plant Operation & Maintenance	1,785,232				1,785,232
Student Transportation	2,078,304	66,351			2,144,655
Community Service Operations	391	161,433			161,824
Adult Education Operations		7,667			7,667
Debt Service:					
Principal			1,359,590		1,359,590
Interest			1,109,559		1,109,559
TOTAL EXPENDITURES	18,202,796	3,080,468	2,469,149	0	23,752,413
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	587,024	(44,830)	(2,217,581)	2,202,487	527,100
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds					0
Proceeds from Sale of Assets	17,119				17,119
Operating Transfers In - Note N		44,830	2,214,973		2,259,803
Operating Transfers Out - Note N	(75,751)			(2,184,052)	(2,259,803)
TOTAL OTHER FINANCING SOURCES	(58,632)	44,830	2,214,973	(2,184,052)	17,119
NET CHANGE IN FUND BALANCES	528,392	0	(2,608)	18,435	544,219
FUND BALANCES - BEGINNING	2,405,564	0	2,608	275,924	2,684,096
FUND BALANCES - ENDING	2,933,956	0	0	294,359	3,228,315

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Amounts reported for governmental activities in the statement of net assets are different because:

NET CHANGES - GOVERNMENTAL FUNDS		544,219
Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.		
Depreciation Expense	(1,564,602)	
Capital Outlays	<u>523,987</u>	(1,040,615)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Principal Paid		1,359,590
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Amortization-Bond Issuance Costs	(34,926)	
Accrued Interest Payable	5,681	
Accrued Sick Leave	<u>(59,688)</u>	(88,933)
In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.		
Gain Adjustment - Sale of Assets		<u>(5,724)</u>
CHANGES - NET ASSETS GOVERNMENTAL FUNDS		<u><u>768,537</u></u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	4,606,991	4,606,991	4,794,796	187,805
Other Local Sources	25,000	25,000	26,418	1,418
State Sources	10,702,577	10,702,577	13,774,364	3,071,787
Federal Sources	10,000	10,000	26,320	16,320
Other Sources	119,000	119,000	185,041	66,041
TOTAL REVENUES	15,463,568	15,463,568	18,806,939	3,343,371
EXPENDITURES:				
Instructional	8,912,087	8,912,087	10,859,809	(1,947,722)
Student Support Services	707,186	707,186	763,413	(56,227)
Staff Support Services	446,912	446,912	588,622	(141,710)
District Administration	1,026,427	1,026,427	914,363	112,064
School Administration	849,592	846,592	921,513	(74,921)
Business Support Services	263,927	263,927	291,149	(27,222)
Plant Operation & Maintenance	2,092,507	2,092,507	1,785,232	307,275
Student Transportation	2,119,390	2,119,390	2,078,304	41,086
Central Office				0
Food Service Operations			391	(391)
Community Service Operations	500	500		500
Facility Acquisition & Construction				0
Other	690,443	733,933	75,751	658,182
TOTAL EXPENDITURES	17,108,971	17,149,461	18,278,547	(1,129,086)
NET CHANGE IN FUND BALANCE	(1,645,403)	(1,685,893)	528,392	2,214,285
FUND BALANCES - BEGINNING	1,645,403	1,685,893	2,405,564	0
FUND BALANCES - ENDING	0	0	2,933,956	2,214,285

On-behalf payments totaling \$3,437,960 are not budgeted by the Garrard County School District.

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes				
Other Local Sources			44,884	44,884
State Sources	791,576	791,576	672,602	(118,974)
Federal Sources	1,886,554	1,886,554	2,332,126	445,572
Other Sources			30,856	30,856
TOTAL REVENUES	<u>2,678,130</u>	<u>2,678,130</u>	<u>3,080,468</u>	<u>402,338</u>
EXPENDITURES:				
Instructional	2,236,032	2,236,032	2,574,122	(338,090)
Student Support Services	37,322	37,322	19,499	17,823
Staff Support Services	236,269	236,269	251,396	(15,127)
District Administration				0
School Administration				0
Business Support Services				0
Plant Operation & Maintenance				0
Student Transportation			66,351	(66,351)
Central Office				0
Community Service Operations	159,307	159,307	161,433	(2,126)
Facility Acquisition & Construction				0
Other	9,200	9,200	7,667	1,533
TOTAL EXPENDITURES	<u>2,678,130</u>	<u>2,678,130</u>	<u>3,080,468</u>	<u>(402,338)</u>
NET CHANGE IN FUND BALANCE	0	0	0	(804,676)
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>(804,676)</u></u>

See accompanying auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	106,276	3,493	109,769
Accounts Receivable	8,105		8,105
Inventories for Consumption	25,630		25,630
Total Current Assets	140,011	3,493	143,504
Noncurrent Assets:			
Furniture & Equipment	400,411		400,411
Less: Accumulated Depreciation	(369,730)		(369,730)
Total Noncurrent Assets	30,681	0	30,681
TOTAL ASSETS	170,692	3,493	174,185
LIABILITIES:			
Current Liabilities:			
Account Payable			0
Accrued Sick Leave			0
Total Current Liabilities	0	0	0
Net Assets:			
Invested in Assets, Net of Debt	30,681		30,681
Restricted	140,011	3,493	143,504
Total Net Assets	170,692	3,493	174,185
TOTAL LIABILITIES AND NET ASSETS	170,692	3,493	174,185

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	ENTERPRISE FUNDS		
	FOOD SERVICE	ADULT EDUCATION FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	439,953		439,953
Other Operating Revenues		9,695	9,695
TOTAL OPERATING REVENUES	439,953	9,695	449,648
OPERATING EXPENSES:			
Salaries & Benefits	619,081	2,093	621,174
Contract Services	25,144	5,812	30,956
Materials & Supplies	775,226		775,226
Depreciation - Note F	5,931		5,931
Other Operating Expenses	4,896	1,326	6,222
TOTAL OPERATING EXPENSES	1,430,278	9,231	1,439,509
OPERATING INCOME(LOSS)	(990,325)	464	(990,789)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	862,096		862,096
State Grants	85,911		85,911
Donated Commodities	74,794		74,794
Interest Income	1,004		1,004
TOTAL NONOPERATING REVENUE	1,023,805	0	1,023,805
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	33,480	464	33,944
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET ASSETS	33,480	464	33,944
TOTAL NET ASSETS - BEGINNING	137,212	3,029	140,241
TOTAL NET ASSETS - ENDING	170,692	3,493	174,185

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>FOOD SERVICE</u>	<u>ADULT EDUCATION FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Operating Revenue	439,953	9,695
Cash Paid to/for:		
Employees	(546,857)	(2,093)
Supplies	(694,641)	
Other Activities	<u>(30,040)</u>	<u>(7,138)</u>
Net Cash Provided (Used) by Operating Activities	(831,585)	464
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Federal Grants	853,991	0
State Grants	<u>13,687</u>	<u>0</u>
Net Cash Provided by Non-Capital and Related Financing Activities	867,678	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Capital Assets	(3,525)	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of Interest Income	<u>1,004</u>	<u>0</u>
Net Increase in Cash and Cash Equivalents	33,572	464
Balances, Beginning of Year	<u>72,704</u>	<u>3,029</u>
Balances, End of Year	<u><u>106,276</u></u>	<u><u>3,493</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	(990,325)	464
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	5,931	
State On-Behalf Payments	72,224	
Donated Commodities	74,794	
Change in Assets and Liabilities:		
Inventory	7,347	
Accounts Payable	<u>(1,556)</u>	
Net Cash Provided (Used) by Operating Activities	<u><u>(831,585)</u></u>	<u><u>464</u></u>
Schedule of Non-Cash Transactions:		
Donated Commodities	74,794	0
State On-Behalf Payments	72,224	0

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	316,320
Accounts Receivable	
Investment Income Receivable	
Loans Receivable	
TOTAL ASSETS	<u>316,320</u>
LIABILITIES:	
Accounts Payable	
Due to Student Groups	<u>225,970</u>
TOTAL LIABILITIES	<u>225,970</u>
NET ASSETS HELD IN TRUST	<u><u>90,350</u></u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Garrard County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Garrard County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Garrard County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Garrard County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Garrard County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified on Pages 42 and 43 in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2012, to finance the General Fund operations were \$0.64 per \$100 valuation for real property, \$0.64 per \$100 valuation for business personal property, and \$0.551 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	\$708,982	Long-Term Sick Leave Commitment

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$4,154,855. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2012, consisted of the following:

	Bank Balance	Book Balance
Whitaker Bank	4,964,624	4,154,855

Breakdown per financial statements:

Governmental Funds	3,728,766
Proprietary Funds	<u>109,769</u>
Subtotal	3,838,535
Agency Funds	<u>316,320</u>
Total Cash and Cash Equivalents – All Funds	<u><u>4,154,855</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Garrard County School District Finance Corporation aggregating \$29,466,672.

The original amount of each issue and interest rates are summarized below:

2003	3,225,000	2.00% - 3.30%
2004	935,000	2.20% - 4.70%
2005	880,000	3.90% - 4.10%
2007A	9,975,000	3.40% - 3.80%
2007B	9,975,000	2.00% - 4.00%
2009	4,300,000	3.40% - 4.10%
2009R	194,134	1.00% - 3.00%
2010	3,830,000	1.00% - 3.00%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Garrard County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2012, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2012-13	1,355,694	1,061,675	230,698	2,186,672
2013-14	1,396,016	1,018,472	230,759	2,183,729
2014-15	1,441,530	980,031	238,477	2,183,084
2015-16	1,479,616	925,578	216,540	2,188,655
2016-17	1,529,135	874,680	215,832	2,187,983
2017-18	1,574,681	826,773	215,870	2,185,585
2018-19	1,600,000	775,936	190,223	2,185,708
2019-20	1,655,000	720,242	190,008	2,185,236
2020-21	1,715,000	661,824	189,985	2,186,839
2021-22	1,730,000	589,036	102,285	2,216,751
2022-23	1,800,000	520,448	102,285	2,218,163
2023-24	1,875,000	448,510	102,285	2,221,225
2024-25	1,950,000	373,463	102,286	2,221,176
2025-26	2,015,000	295,561	92,156	2,218,405
2026-27	2,060,000	215,880	53,948	2,221,932
2027-28	2,135,000	133,886	46,691	2,222,195
2028-29	<u>2,155,000</u>	<u>88,354</u>	<u>19,659</u>	<u>2,223,696</u>
	<u>29,466,672</u>	<u>10,510,349</u>	<u>2,539,987</u>	<u>37,437,034</u>

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bond Payable	30,801,935	0	1,335,263	29,466,672	1,355,694
Capital Lease Obligations	205,524	0	24,327	181,197	24,906
Accrued Sick Leave	<u>1,036,190</u>	<u>160,159</u>	<u>96,794</u>	<u>1,099,555</u>	<u>390,573</u>
Governmental Activities					
Long-Term Liabilities	<u>32,043,649</u>	<u>160,159</u>	<u>1,456,384</u>	<u>30,747,424</u>	<u>1,771,173</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2019. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2012.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2012</u>
Buses	261,708
Accumulated Amortization	<u>(95,461)</u>
	<u>166,247</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2012:

<u>Year Ending June 30.</u>	<u>Capital Lease Payable</u>
2013	30,921
2014	30,912
2015	31,013
2016	30,965
2017	30,936
Thereafter	<u>51,775</u>
Net minimum lease payments	206,522
Amount representing interest	<u>(25,325)</u>
Present value of net minimum lease payments	<u>181,197</u>

Interest rates on capitalized leases vary from 2.00% to 3.90%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	608,830			608,830
Depreciable Assets:				
Land Improvements	1,004,265			1,004,265
Buildings & Building Improvements	46,703,021			46,703,021
Technology Equipment	1,840,588	110,518	167,610	1,783,496
Vehicles	3,937,397	313,274		4,250,671
General Equipment	779,275	100,195	24,949	854,521
TOTAL AT HISTORICAL COST	54,873,376	523,987	192,559	55,204,804
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	843,859	40,548		884,407
Buildings & Building Improvements	8,385,946	1,019,041		9,404,987
Technology Equipment	1,204,639	221,549	167,598	1,258,590
Vehicles	2,740,704	223,880		2,964,584
General Equipment	324,653	59,584	19,238	364,999
TOTAL ACCUMULATED DEPRECIATION	13,499,801	1,564,602	186,836	14,877,567
GOVERNMENTAL ACTIVITIES CAPITAL NET	41,373,575	(1,040,615)	5,723	40,327,237
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	7,391		1,098	6,293
Vehicles	13,345			13,345
Food Service Equipment	377,248	3,525		380,773
TOTALS AT HISTORICAL COST	397,984	3,525	1,098	400,411
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	324	1,593	1098	819
Vehicles	13,345			13,345
Food Service Equipment	351,228	4,338		355,566
TOTAL ACCUMULATED DEPRECIATION	364,897	5,931	1098	369,730
PROPRIETARY ACTIVITIES CAPITAL NET	33,087	(2406)	0	30,681
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,321,601
Student Support Services				21,977
Staff Support Services				18,772
District Administration				13,095
School Administration				1,014
Business Support Services				2,765
Plant Operation & Maintenance				12,162
Student Transportation				173,216
TOTAL				1,564,602

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2012, as follows:

Year Ending June 30, 2013	<u>12,360</u>
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NOTE H – RETIREMENT PLANS

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members hired before July 1, 2008, are required to contribute 10.355% of their salaries and for members hired after July 1, 2008, to contribute 10.855% to KTRS. The Commonwealth of Kentucky is required to contribute 13.605% and 14.105% of salaries respectively. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 18.96% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$13,387,773. The payroll for employees covered under KTRS was \$10,200,724 and for CERS was \$3,187,049.

For the year ended June 30, 2012, the Commonwealth contributed \$1,151,226 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2012, were \$154,244, which represent those employees covered by federal programs.

The contribution requirements for CERS for the year ended June 30, 2012, was \$771,124, which consisted of \$604,265 from the Board and \$166,859 from the employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the Plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following tables present certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2011	CERS June 30, 2011
Assets available for benefits, at fair value	14,908,138,000	5,629,611,183
Pension benefit obligation	<u>(25,968,692,000)</u>	<u>(8,918,085,025)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(11,060,554,000)</u>	<u>(3,288,473,842)</u>

Ten-year historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2011, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District’s portion of the unfunded past service cost or the vested benefits of the District’s portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE I – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE J – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers' Compensation insurance.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Debt Service	\$2,217,581
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NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	44,830
Operating	Capital Outlay	Debt Service	Debt Service	224,151
Operating	Building	Debt Service	Debt Service	1,959,901
Operating	General	Debt Service	Debt Service	<u>30,921</u>
				<u>2,259,803</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2012.

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 12, 2012, and there are no other material subsequent events requiring disclosure.

NOTE Q – ON-BEHALF PAYMENT

For the year ended June 30, 2012 \$3,761,752 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 3,437,960
Food Service Fund	72,224
Debt Service Fund	<u>251,568</u>
Total	<u>\$ 3,761,752</u>

GARRARD COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2012

	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents		18,229	276,130	294,359
Accounts Receivable:				
Taxes				
Accounts				
TOTAL ASSETS	<u>0</u>	<u>18,229</u>	<u>276,130</u>	<u>294,359</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable				
Accrued Sick Leave				
Deferred Revenues				
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance:				
Restricted for:				
Capital Projects		18,229	276,130	294,359
Debt Service				
Committed for:				
Accrued Sick Leave				
Assigned:				
Purchase Obligations				
Unassigned				
Total Fund Balance	<u>0</u>	<u>18,229</u>	<u>276,130</u>	<u>294,359</u>
TOTAL LIABILITIES AND NET ASSETS	<u>0</u>	<u>18,229</u>	<u>276,130</u>	<u>294,359</u>

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes		1,257,111		1,257,111
Earnings from Investments				0
Intergovernmental - State	224,151	721,019		945,170
Intergovernmental - Federal				0
Other Sources			206	206
TOTAL REVENUES	224,151	1,978,130	206	2,202,487
EXPENDITURES:				
Instructional				0
Student Support Services				0
Staff Support Services				0
District Administration				0
School Administration				0
Business Support Services				0
Plant Operations & Maintenance				0
Student Transportation				0
Central Office				0
Community Service Operations				0
Facilities Acquisition & Construction				0
Debt Service:				0
Principal				0
Interest				0
TOTAL EXPENDITURES	0	0	0	0
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	224,151	1,978,130	206	2,202,487
OTHER FINANCING SOURCES(USES):				
Proceeds from Sale of Bonds				0
Proceeds from Sale of Assets				0
Operating Transfers In				0
Operating Transfers Out	(224,151)	(1,959,901)		(2,184,052)
TOTAL OTHER FINANCING SOURCES(USES)	(224,151)	(1,959,901)	0	(2,184,052)
NET CHANGE IN FUND BALANCES	0	18,229	206	18,435
FUND BALANCES - BEGINNING	0	0	275,924	275,924
FUND BALANCES - ENDING	0	18,229	276,130	294,359

See independent auditor's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	FUND BALANCE JULY 1, 2011	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2012
Garrard County High School	83,131	323,558	317,147	89,542
Garrard County Middle School	60,825	55,602	55,360	61,067
Camp Dick Robinson Elementary	39,096	127,867	119,608	47,355
Lancaster Elementary	17,265	24,044	25,135	16,174
Paint Lick Elementary	13,222	26,283	27,673	11,832
Total Due to Student Groups	213,539	557,354	544,923	225,970
Other Agency Funds	88,759	8,091	6,500	90,350
Total Activity Funds	302,298	565,445	551,423	316,320

See independent accountant's report and accompanying notes to financial statements.

GARRARD COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	CASH BALANCE JULY 1, 2011	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2012	ACCOUNTS RECEIVABLE JUNE 30, 2012	ACCOUNTS PAYABLE JUNE 30, 2012	FUND BALANCE JUNE 30, 2012
Academic Team	31	0	29	2			2
Advanced Foods	228	215	43	400			400
AG Shop	1,681	2,679	4,320	40			40
Art	8	0	0	8			8
Band	3,132	43,386	39,451	7,067			7,067
Baseball	859	5,443	3,917	2,385			2,385
Beta Club	696	1,021	1,092	625			625
Boys Basketball	3,499	15,128	13,959	4,668			4,668
Boys Golf	1,865	4,474	3,917	2,422			2,422
Boys Soccer	1,700	488	616	1,572			1,572
Boys Tennis	1,684	1,164	1,247	1,601			1,601
Cheerleaders	160	6,777	6,905	32			32
Choir	292	3,738	3,586	444			444
Drama Society	765	4,961	4,735	991			991
Fashion	0	147	129	18			18
FBLA	1,104	1,096	1,401	799			799
FCA	412	536	835	113			113
FCCLA	724	7,065	7,745	44			44
FEA	0	320	204	116			116
FFA	219	6,750	6,677	292			292
FMD	69	0	0	69			69
Floral Design	0	873	873	0			0
Football	9,783	42,368	43,355	8,796			8,796
French Club	45	242	241	46			46
GCHS Athletic Director	588	0	0	588			588
Ghost Out	172	0	0	172			172
Girls Basketball	1,602	8,348	9,824	126			126
Girls Golf	0	95	92	3			3
Girls Soccer	477	963	1,265	175			175
Girls Tennis	480	688	1,017	151			151
GMS Athletic Director	0	3,888	3,888	0			0
GMS Baseball	1,339	7,515	7,910	944			944
GMS Boys Basketball	100	9,625	8,739	986			986
GMS Boys Golf	95	420	276	239			239
GMS Boys Soccer	20	75	0	95			95
GMS Cheer	100	1,669	946	823			823
GMS Football	302	3,082	3,021	363			363
GMS Girls Basketball	3,008	2,344	4,672	680			680

GMS Girls Soccer	5	400	0	405			405
GMS Softball	416	12,042	9,902	2,556			2,556
GMS Ticket Revenue	13,232	24,458	25,483	12,207			12,207
Golden Pride Bank	0	50	0	50			50
Graduation	553	3,557	3,415	695			695
Greenhouse	0	2,177	56	2,121			2,121
Guidance	56	2,176	1,855	377			377
ID Badges	0	500	263	237			237
Instructional	1,827	17,861	18,517	1,171			1,171
Jr History Trip	190	0	190	0			0
Library	275	2,523	2,247	551			551
National Honor Society	0	1,219	430	789			789
Newspaper	0	1,154	344	810			810
Office	23	139	133	29			29
Parking	500	378	271	607			607
Project Graduation	1,778	17,789	19,109	458			458
Science Club	82	120	150	52			52
Shop	0	400	294	106			106
Softball	1,184	4,389	2,580	2,993			2,993
Spanish Club	1	0	0	1			1
Student Council	6,000	10,183	9,810	6,373			6,373
Student Funds	309	1,081	911	479			479
Teacher Vending	122	1,651	1,725	48			48
Ticket Revenue	7,947	30,850	31,216	7,581			7,581
Track	(154)	1,787	1,430	203			203
USS Garrard	1,000	0	1,000	0			0
Vanco	0	224	224	0			0
Volleyball	395	4,377	3,382	1,390			1,390
Watershed Grant	555	0	0	555			555
Yearbook	9,350	8,082	8,763	8,669			8,669
Young Dems/Reps	247	0	112	135			135
Total All Funds	83,131	337,150	330,739	89,542	0	0	89,542
Interfund Transfers	0	(13,592)	(13,592)	0	0	0	0
Total	83,131	323,558	317,147	89,542	0	0	89,542

GARRARD COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA NUMBER	MUNIS PROJECT NUMBER	EXPENDITURES
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - School Improvement Grant	84.010	3200	13,583
Title I - School Improvement Grant	84.010	3201	67,641
Title I - School Improvement Grant	84.010	3202	8,911
Title I - School Improvement Grant - ARRA	84.389	5600A	7,895
Title I - School Improvement Grant - ARRA	84.389	5600B	38,682
Title I - Grants to Local Educational Agencies	84.010	3102	490,767
Title I - Grants to Local Educational Agencies	84.010	3101	114,013
Title I - Professional Development	84.010	3101D	8,725
Title I - Professional Development	84.010	3102D	71,229
Title I - Parent Involvement	84.010	3100M	354
Title I - Tier 3 Assist Team	84.010	3101T	4,396
Title I - Tier 3 Assist Team	84.010	3102T	1,262
Title I - Parent Involvement	84.010	3101M	3,574
Title I - Parent Involvement	84.010	3102M	1,808
Title I Cluster			832,840
Career & Technical Education	84.048	3480A	898
Career & Technical Education	84.048	3481	3,172
Career & Technical Education	84.048	3481A	1,322
Career & Technical Education	84.048	3482	25,453
Career & Technical Education Total			30,845
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4010	278
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4011	16,728
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4012	122,217
Total Title II - Part A			139,223
Federal Ed Tech - Basic	84.318	4251	322
Enhancing Education Tech - ARRA	84.386	4850	2,402
Title II Cluster			2,724
Migrant Education - State Grant Program	84.011	3111	7,915
Migrant Education - State Grant Program	84.011	3112	63,187
Migrant Education - State Grant Program Total			71,102
IDEA - Special Education - Grants to State	84.027	3371	66,634
IDEA - Special Education - Grants to State	84.027	3372	332,430
IDEA - Special Education - Preschool Grants	84.173	3430	4,717
IDEA - Special Education - Preschool Grants	84.173	3431	18,689
IDEA - Special Education - Preschool Grants	84.173	3432	7,676
Special Education Cluster			430,146 *
Adult Ed. Basic	84.002A	3732	13,897
Adult Ed. Basic	84.002A	3732S	910
Adult Education Federal Supplement	84.002A	3651	3,854
Adult Ed Basic Total			18,661
21st CCLC - Garrard Middle Summer School	84.287	5501S	4,242
21st CCLC - Garrard Middle Summer School	84.287	5502S	5,000
21st CCLC - Garrard Middle School	84.287	5500	46,518
21st CCLC - Garrard Middle School	84.287	5501	105,439
21st CCLC - Garrard Middle School	84.287	5501J	4,808
21st CCLC - Garrard Middle School Supplement	84.287	5500Z	8,461
21st CCLC Total			174,468 *
Rural and Low Income Schools	84.358	3502	10,600
Education Jobs Funding- ARRA	84.410	4411	483,567 *
Norm Referenced Test	84.369	3977	114
Norm Referenced Test	84.369	3978	786
Norm Referenced Test Total			900
Gear Up Grant	84.334A	3792G	67,595
Homless Children & Youth - ARRA	84.387	3219	65
KY Hybrid Electric School Bus Program-ARRA	81.086	6200D	66,086
Total U.S. Department of Education			2,328,822
KY AHED Grant	23.001	6882	4,928
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-11	129,709
National School Lunchroom	10.555	7750002-12	499,266
School Breakfast Program	10.553	7760005-11	41,929
School Breakfast Program	10.553	7760005-12	182,258
Summer Meal Program	10.559	7690024-12	76
Summer Meal Program	10.559	7740023-12	753
Child Nutrition Cluster			853,991
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	74,794
Total U.S. Department of Agriculture			928,785
Total Federal Financial Assistance			3,262,535

* Tested as major program

GARRARD COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Garrard County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

GARRARD COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster
84.410	EduJobs
84.287	21 st Century

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

GARRARD COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2012

There were no prior year audit findings.

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Charles M. White, CPA

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October 12, 2012

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Garrard County School District, as of and for the year ended June 30, 2012, which collectively comprise the Garrard County School District's basic financial statements and have issued our report thereon dated October 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.*

Internal Control over Financial Reporting

Management of Garrard County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Garrard County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Garrard County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Garrard County School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garrard County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Garrard County School District in a separate letter dated October 12, 2012.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Garrard County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Charles M. White, CPA

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October 12, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

Compliance

We have audited the Garrard County School District compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Garrard County School District's major federal programs for the year ended June 30, 2012. Garrard County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Garrard County School District's management. Our responsibility is to express an opinion on Garrard County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report..* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Garrard County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Garrard County School District's compliance with those requirements.

In our opinion, Garrard County School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of Garrard County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Garrard County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Garrard County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Garrard County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Charles M. White, CPA

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October 12, 2012

MANAGEMENT LETTER

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

In planning and performing our audit of the financial statements of Garrard County School District for the year ended June 30, 2012, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year Recommendation:

During the course of the audit, it was noted that there was one activity fund at the high school (Track Fund) that had a deficit balance of \$154.00 at June 30, 2011. The Redbook states that no school activity fund shall end the fiscal year or begin a fiscal year with a deficit balance. We recommend that the school bookkeeper for the activity funds monitor the individual funds to ensure that there are no deficit balances at the end of the year.

Current Year Finding:

There were no deficits in activity fund accounts as of June 30, 2012.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Charles M. White, CPA

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October 12, 2012

Members of the Board of Education
Garrard County School District
322 W Maple Street
Lancaster, KY 40444

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Garrard County School District for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 11, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Garrard County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Garrard County School District and management of Garrard County School District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants